

AMERICAN SOCIALIST EXPERIMENT FAILS WORSE THAN WIEMAR SOCIALIST REPUBLIC IN PREPRUSSIAN GERMANY. US DEBT IS **HUNDREDS OF TRILLIONS!** US FAILS WITHOUT SALVAGE! **WE ARE SOLD SOUR WINE IN NEW SKINS; JUST LIKE ERA'S BEFORE. WHAT DO YOU SEE HAPPENING TODAY? WORLD DEBTORS CAN OCCUPY USA AND TAKE WHAT THEY LOOT AND PURLOIN TO SATISFY MONEY WE OWE TO THEM! US IS TOO SUBJUGATED, ENSLAVE, WEAK, SICK AND DISABLED TO FIGHT BACK, LIKE A DOG WILL ROLL OVER PEE ON SELF AND GIVE UP TO THEM.**

This strategy failed as Germany lost the war, which left the new Wiemar Republic saddled with massive war debts that it could not afford: **the national debt stood at 156 billion marks in 1918.**[3] The debt problem was exacerbated by printing money without any economic resources to back it.[1] John Maynard Keynes characterized the inflationary policies of various wartime governments in his 1919 book *The Economic Consequences of the Peace* as follows:

The inflationism of the currency systems of Europe has proceeded to extraordinary lengths. The various **belligerent Governments, unable, or too timid or too short-sighted** to secure from loans or taxes the resources they required, have printed notes for the balance.

Inflation immediately after the First World War

[edit]

The value of the German currency continued to fall in the immediate aftermath of the First World war. By late 1919, by which time the German government had signed the Treaty of Versailles, which included an agreement to pay substantial reparations to the Allied powers both in hard cash and in in-kind shipments of goods such as coal and timber, 48 paper marks were required to buy a US dollar.[4] In May 1921 the amount to be paid by the Central Powers as a whole was fixed at 132 billion gold marks under the London Schedule of payments which set quarterly deadlines for payments. Of this, 50 billion gold marks was listed in A and B bonds payable under the quarterly deadlines in the schedule, the remaining sum of approximately 82 billion gold marks being listed as C bonds that were effectively chimerical and not payable under the schedule but instead left to an undefined future date, with the Germans being informed that they realistically would not have to pay them.[5]:²³⁷[6]

The German currency was relatively stable at about 90 marks per dollar during the first half of 1921.[7] Because the Western Front of the war had been mostly fought in France and Belgium, Germany came out of the war with most of its industrial infrastructure intact, leaving it in a better place economically than neighboring France or Belgium.[8][9]

The first payment of one billion gold marks was made when it came due in June 1921,[10] At this point, customs-posts in the west of Germany were occupied by Allied officials, meaning that the schedule of payments could be enforced. However, following the first payment the Allied officials were withdrawn from everywhere but Dusseldorf, and whilst some payments in kind continued, only small cash payments were subsequently made for the remainder of 1921-22.[5]:²³⁷

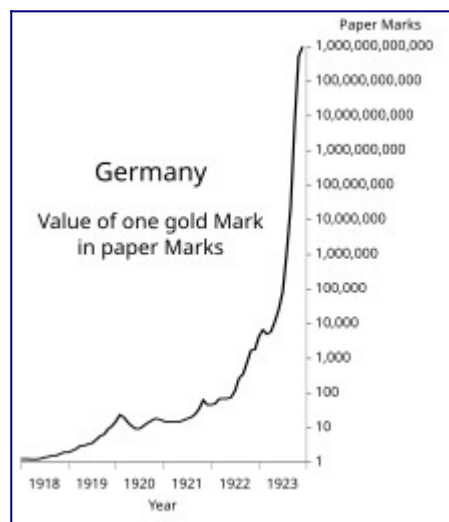
From August 1921, the president of the Reichsbank, Rudolf Havenstein began a strategy of buying foreign currency with marks at any price, without any regard for inflation, and it only increased the

speed of the collapse in value of the mark.[11] German officials claimed this was in order to make cash payments owed to the Allies using foreign currency. British and French experts stated that this was in an effort to ruin the German currency and, as well as escaping the need for budgetary reform, avoid paying reparations all together, a claim supported by Reich Chancellery records showing that delaying the currency and budgetary reform that could have addressed hyperinflation was seen as advantageous. Whilst ruinous to the economy and politically destabilizing, hyper-inflation had advantageous aspects for the German government as, although the war reparations were not listed in paper currency, domestic debts owed from the first world war were, meaning that inflation greatly reduced this debt relative to revenues.[5]:239

In the first half of 1922, the mark stabilized at about 320 marks per dollar.[4] International conferences were held. One, in June 1922, was organized by US investment banker J. P. Morgan, Jr.[12] The meetings produced no workable solution, and inflation erupted into hyperinflation, the mark falling to 7,400 marks per US dollar by December 1922.[4] The cost-of-living index was 41 in June 1922 and 685 in December, a nearly 17-fold increase.[13]

After Germany failed for the thirty-fourth time in thirty-six months to pay an installment of in-kind reparations of coal, in January 1923 French and Belgian **troops occupied the Ruhr valley, Germany's main industrial region. 900 million gold marks of reparations were ultimately secured this way.** [5]:245

The German government's response was to order a policy of passive resistance in the Ruhr, with workers being told to do nothing which helped the French and Belgians in any way. While this policy, in practice, amounted to a general strike to protest the occupation, the striking workers still had to be given financial support. The government paid these workers by printing more and more banknotes, with Germany soon being swamped with paper money, exacerbating the hyperinflation even further. [14][15]



Weimar Republic hyperinflation from one to a trillion paper marks per gold mark; values on logarithmic scale.

A loaf of bread in Berlin that cost around 160 Marks at the end of 1922 cost 200,000,000,000 or 2×10^{11} Marks by late 1923.[14]

By November 1923, one US dollar was worth 4,210,500,000,000 or 4.2105×10^{12} German marks.[16]



50,000 marks, Aachen, 1923



500,000 marks, Leipzig, 1923



A 5 Million Mark coin, Westphalia, 1923



5,000,000 marks, Danzig, 1923



50,000,000 marks, Trier, 1923



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500,000,000 marks, Dresden, 1923



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5 billion (5 Milliarden) marks, Berlin, 1923



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50 billion (50 Milliarden) marks, Plauen, 1923



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500 billion (500 Milliarden) marks, Berlin, 1923



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5 trillion (5 Billionen, 5×10^{12}) marks, Stuttgart, 1923



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50 trillion (50 Billionen, 5×10^{13}) marks Eschweiler, 1923



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German monetary economics was at that time heavily influenced by Chartalism and the German Historical School, which conditioned the way the hyperinflation was analyzed.[17] The hyperinflation crisis led prominent economists and politicians to seek a means to stabilize German currency. In August 1923, an economist, Karl Helfferich, proposed a plan to issue a new currency, the "Roggenmark" ("rye mark"), to be backed by mortgage bonds indexed to the market price of rye grain. The plan was rejected because of the greatly fluctuating price of rye in paper marks.[18]

Agriculture Minister Hans Luther proposed a plan that substituted gold for rye and led to the issuance of the Rentenmark ("mortgage mark"), backed by bonds indexed to the market price of gold.[19] The gold bonds were indexed at the rate of 2,790 gold marks per kilogram of gold, the same as the pre-war gold marks. Rentenmarks were not redeemable in gold but only indexed to the gold bonds. The plan was adopted in monetary reform decrees on 13–15 October 1923.[20] A new bank, the Rentenbank, was set up by Hans Luther when he became Finance Minister.[21]



Two Rentenmark note, issued in line with the Decree of 15 October 1923

After 12 November 1923, when Hjalmar Schacht became currency commissioner, Germany's central bank (the Reichsbank) was not allowed to discount any further government Treasury bills, which meant the corresponding issue of paper marks also ceased.[22] The discounting of commercial trade bills was allowed and the amount of Rentenmarks [GOVT BONDS] expanded, but the issue was strictly controlled to conform to current commercial and government transactions. The Rentenbank refused credit to the government and to speculators who were not able to borrow Rentenmarks, because Rentenmarks were not legal tender.[23]

On 16 November 1923, the new Rentenmark was introduced to replace the worthless paper marks issued by the Reichsbank. Twelve zeros were cut from prices, and the prices quoted in the new currency remained stable.[24]

When the president of the Reichsbank, Rudolf Havenstein, died on 20 November 1923, Schacht was appointed to replace him. By 30 November 1923, there were 500,000,000 Rentenmarks in circulation, which increased to 1,000,000,000 by January 1, 1924, and to 1,800,000,000 Rentenmarks by July 1924. Meanwhile, the old paper Marks continued in circulation. **The total paper marks [INFLATED/DEVALUED] increased to 1.2 sextillion (1,200,000,000,000,000,000) in July 1924 and continued to fall in value to a third of their conversion value in Rentenmarks.**[23]

On 30 August 1924, a monetary law permitted the exchange of a 1-trillion paper mark notes to a new Reichsmark, worth the same as a Rentenmark.[25] By 1924 one dollar was equivalent to 4.2 Rentenmark.[26]

Date	*Reichs*Mark	*Gold*Mark	1 *Gold*Mark = *Reichs*Mark
January-June 1918	10	8,00	1,25
December 1918	10	5,00	2,00
June 1919	10	3,11	3,21
December 1919	10	1,08	9,61
March 1920	100	4,87	20,53
December 1920	100	6,88	14,53
August 1921	100	5,82	17,18
December 1921	100	2,87	34,84
July 1922	1000	9,50	105,26
November 1922	10000	7,80	1.282,05
23. July 1923	1 Million	9,89	101.112,23
17. August 1923	10 Million	9,81	1.019.367,99
7. September 1923	100 Million	7,82	12.787.723,78
3. October 1923	1 Milliarden	9,21	108.577.633,00
16. October 1923	10 Milliarden	8,06	1.240.694.789,00
22. October 1923	100 Milliarden	8,18	12.224.918.875,00
5. November 1923	1 Billion	8,65	115.607.000.000,00

Revaluation Act 1925 - Conversion Table

Note: 1 Milliardo in German Terms (1,000 Million) = 1 Billion in US Terms;
1 Billion in German Terms (1,000,000 Million) = 1 Trillion in US Terms;
1 *Gold*Mark value in grammes of fine gold (1933) = 0,35842g;
*Reichs*Mark = Currency not tied to the goldstandard in 1918 to 1924.

Source: Law about the Revaluation of Mortgages and other Claims (Revaluation Act 1925), issued the 16th of July, 1925 (Aufwertungsgesetz, Reichsgesetzblatt, Teil I, 1925, p.113-115) and Author's calculations in: Wolfgang Chr. Fischer, German Hyperinflation - A Law and Economics Approach, Eul-Verlag Köln 2010, p. 83

Conversion table

Eventually, some debts were reinstated to compensate creditors partially for the catastrophic reduction in the value of debts that had been quoted in paper marks before the hyperinflation. A decree of 1925 reinstated some mortgages at 25% of face value in the new currency, effectively 25,000,000,000 times their value in the old paper marks, if they had been held for at least five years. Similarly, some government bonds were reinstated at 2.5% of face value, to be paid after reparations were paid.[27]

Mortgage debt was reinstated at much higher rates than government bonds were. **The reinstatement of some debts and a resumption of effective taxation in a still-devastated economy triggered a wave of corporate bankruptcies.**

One of the important issues of the stabilization of a hyperinflation is the *revaluation*. The term normally refers to the raising of the exchange rate of one national currency against other currencies. As well, it can mean *revalorization*, the restoration of the value of a currency depreciated by inflation. The German government had the choice of a revaluation law to finish the hyperinflation quickly or of allowing sprawling and the political and violent disturbances on the streets. The government argued in detail that the interests of creditors and debtors had to be fair and balanced. Neither the living standard price index nor the share price index was judged as relevant.^[citation needed]

The calculation of the conversion relation was considerably judged to the dollar index as well as to the wholesale price index. In principle, the German government followed the line of market-oriented reasoning that the dollar index and the wholesale price index would roughly indicate the *true* price level in general over the period of high inflation and hyperinflation. In addition, the revaluation was bound on the exchange rate mark and United States dollar to obtain the value of the *Goldmark*.[28]

Finally, the Law on the Revaluation of Mortgages and other Claims of 16 July 1925 (*Gesetz über die Aufwertung von Hypotheken und anderen Ansprüchen* or *Aufwertungsgesetze*) included only the ratio of the paper mark to the gold mark for the period from 1 January 1918, to 30 November 1923, and the following days.[29] The galloping inflation thus caused the end of a principle, "a mark is worth a mark", which had been recognized, the nominal value principle.[30]

The law was challenged in the Supreme Court of the German Reich (*Reichsgericht*), but its 5th Senate ruled, on 4 November 1925, that the law was constitutional, even according to the Bill of Rights and Duties of Germans (Articles 109, 134, 152 and 153 of the Constitution).[31][32][33] The case set a precedent for judicial review in German jurisprudence.[34]

Historians and economists differ over the causes of the German hyperinflation, particularly on the subject of whether it was caused by reparations payments.

The Treaty of Versailles had imposed an undefined debt on Germany, which the London Schedule of Payments agreed in May 1921 had determined to be essentially 50 billion marks in A and B bonds payable partly in-kind with goods like coal and timber, and partly in gold and hard-cash. From June 1921, when a single payment of 1 billion gold marks was paid (roughly 1.4% of Germany's nominal 1925 GNP)[1], until the agreeing of the Dawes plan in late 1924, only relatively small cash payments were made by Germany, though partial in-kind payments continued. For example, of the 300 million gold marks due under a variable annuity in November 1921, only 13 million was paid, and of the roughly 3 billion gold marks total due under payments in 1922, only 435 million were paid in cash.[5]:238

Germany's leadership claimed that, with its gold depleted, inflation resulted during 1921-23 due to attempts to buy foreign currency with German currency in an effort to make cash payments as reparations. This would be equivalent to selling German currency in exchange for payment in foreign currency, but the resulting increase in the supply of German marks on the market caused the German mark to fall rapidly in value.[11][5]:238

British and French experts claimed that the German leadership were purposefully stoking inflation as a way of avoiding paying reparations, as well as a way of avoiding budgetary reforms - a view later supported by analysis of Reich Chancellery record showing that tax reform and currency stabilisation was delayed in 1922-23 in the hope of reductions in reparations. Particularly, Allied analysis of German statistics showed that printing of paper currency was being used to maintain tax-rates much lower than in Allied countries, to fund relatively high levels of state expenditure, and that this effect was being worsened by unrestricted capital flight from Germany. Reparations payments continued more or less in full from 1924 to 1931 without a return of hyperinflation and, after 1930, Germany protested that reparations payments were deflationary.[5]:239 Inflation also enabled the German government to pay off its substantial domestic debts, particularly war debts, in devalued marks.[5]:245

One point on which historians tend to agree is that the printing of cash by the German government to make payments to striking workers in the Ruhr, who were refusing to make reparations deliveries to the Allies, contributed to hyper-inflation.[5]:245[11] The occupation of the Ruhr also caused German output to fall.[6]

Regardless of the reason for the declining value of the German currency, the decline caused prices of goods to rise rapidly, increasing the cost of operating the German government, which could not be financed by raising taxes because those taxes would be payable in the ever-falling German currency. The resulting deficit was financed by some combination of issuing bonds and simply creating more money, both increasing the supply of German mark-denominated financial assets on the market and so further reducing the currency's price. When the German people realized that their money was rapidly losing value, they tried to spend it quickly. That increased monetary velocity caused an ever-faster increase in prices, creating a vicious cycle.[35]

The government and the banks had two unacceptable alternatives. If they stopped inflation, there would be immediate bankruptcies, unemployment, strikes, hunger, violence, collapse of civil order, insurrection and possibly even revolution.[36] If they continued the inflation, they would default on their foreign debt. However, attempting to avoid both unemployment and insolvency ultimately failed when Germany had both.[36]

Aftermath and legacy

[edit]



Germany, 1923: banknotes had lost so much value that they were used as wallpaper.

The hyperinflation episode in the Weimar Republic in the early 1920s was not the first or even the most severe instance of inflation in history. [37][38] However, it has been the subject of the most scholarly economic analysis and debate. The hyperinflation drew significant interest, as many of the dramatic and unusual economic behaviors now associated with hyperinflation were first documented systematically: exponential increases in prices and interest rates, redenomination of the currency, consumer flight from cash to hard assets and the rapid expansion of industries that produced those assets.

Since the hyperinflation, German monetary policy has retained a central concern with the maintenance of a sound currency, a concern that had an effect on the European sovereign debt crisis.[39] According to one study, many Germans conflate hyperinflation in the Weimar Republic with the Great Depression, seeing the two separate events as one big economic crisis that encompassed both rapidly rising prices and mass unemployment.[40]

The hyperinflated, worthless marks became widely collected abroad. The *Los Angeles Times* estimated in 1924 that more of the decommissioned notes were spread about the US than existed in Germany.[41]

Firms responded to the crisis by focusing on those elements of their information systems they identified as essential to continuing operations. In the beginning the focus was on adjusting sales and procurement arrangements, modifications to financial reporting, and the use of more nonmonetary information in internal reporting. With the continuous acceleration of inflation, human resources were

redeployed to the most critical corporate functions, in particular those involved in the remuneration of labor. There is evidence that some parts of corporate accounting systems fell into disrepair, but there was also innovation.[42]


- Andreas Hermes
- Zero stroke

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25–32 minutes



Piles of new *Notgeld* banknotes awaiting distribution at the Reichsbank during the hyperinflation

Hyperinflation affected the German Papiermark, the currency of the Weimar Republic, between 1921 and 1923, primarily in 1923. The German currency had seen significant inflation during the First World War due to the way in which the German government funded its war effort through borrowing, with debts of 156 billion marks by 1918. This national debt was substantially increased by 50 billion marks of reparations payable in cash and in-kind (e.g., with coal and timber) under the May 1921 London Schedule of Payments agreed after the Versailles treaty.

This inflation continued into the post-war period, particularly when in August 1921 the German central bank began buying hard cash with paper currency at any price, which they claimed was to pay reparations in hard cash though little in the way of cash reparations payments were made until 1924. The currency stabilised in early 1922 but thereafter hyper-inflation took off, with the mark falling in exchanges from 320 marks per dollar in mid 1922 to 7,400 marks per US dollar by December 1922. This hyperinflation continued into 1923, and by November 1923, one US dollar was worth 4,210,500,000,000. Various measures were introduced by German authorities to address this, including a new currency called the *Rentenmark*, backed by mortgage bonds, later itself replaced by the Reichsmark, and the blocking of the national bank from printing further paper currency.

By 1924 the currency had stabilised and German reparations payments began again under the Dawes Plan. As the catastrophic fall in the value of the mark had effectively wiped out debts owed, some debts (e.g., mortgages) were revalued so that the lenders could re-coup some of their money.

Hyperinflation caused considerable internal political instability in the country. Historians and economists are divided on the causes of this hyperinflation, particularly the extent to which it was caused by reparations payments.

Inflation during the First World War

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To pay for the large costs of the ongoing First World War, Germany suspended the gold standard (the convertibility of its currency to gold) when the war broke out in 1914. Unlike France, which imposed its first income tax to pay for the war, German Emperor Wilhelm II and the Reichstag decided unanimously to fund the war entirely by borrowing.

The government believed that it would be able to pay off the debt by winning the war and imposing war reparations on the defeated Allies. This was to be done by annexing resource-rich industrial territory in the west and east and imposing cash payments to Germany, similar to the French indemnity that followed German victory over France in 1870.[1] Thus, the exchange rate of the mark against the US dollar steadily devalued from 4.2 to 7.9 marks per dollar between 1914 and 1918, a preliminary warning to the extreme postwar inflation.[2]